

Update on business conditions in France at the start of July 2022

Activity continues to hold up despite a difficult environment, impacted by the war in Ukraine and strong tensions in commodity markets. However, business leaders feel that the outlook is mixed.

According to the business leaders surveyed (approximately 8,500 companies and establishments questioned between 28 June and 5 July), activity in June was stable in industry and rose slightly in the market services covered by the survey and in construction.

For the month of July, activity is expected to contract a little in industry and to grow at a modest rate in market services. Little change is expected in the construction industry. However, the outlook for each of the three major sectors is subject to considerable uncertainty.

In this context, supply difficulties eased but were still significant in industry (affecting 59% of companies in June, down from 61% in May) and construction (52% in June compared with 55% in May). Recruitment difficulties rose sharply by 3 percentage points to affect 58% of companies. This most recent increase was observed in all sectors but was most felt in services. At the same time, the share of business leaders expecting to increase their selling prices fell for the second month in a row, consistent with the perception that raw material prices are rising less rapidly.

After rebounding vigorously in 2021, GDP fell in the first quarter of 2022 due to the effects of the Omicron wave and the initial impacts of the war in Ukraine. After improving in April and particularly in May, GDP is expected to stabilise in June. Early indications suggest that it will be stable again in July. At this stage, we thus expect growth in GDP for the second quarter of 2022 of around ¼% compared with the previous quarter.

1. Activity was stable in industry in June and rose slightly in market services and construction

In June, activity was stable in industry, in line with business expectations expressed in May. However, developments varied across the sectors.

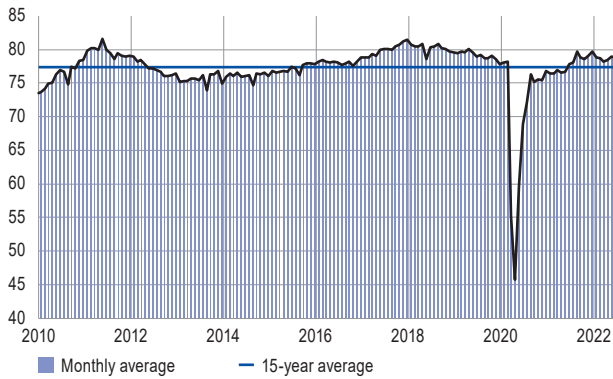
For example, balances of opinion on production in June point to healthy growth in the pharmaceutical and rubber and plastics industries. Conversely, machinery and equipment and chemicals industry output was down on the previous month.

In **industry** as a whole, the capacity utilisation rate remained at 79% in June. This rate is largely unchanged and is tracking above its historical average in most sectors, with the main exceptions being the aeronautics and other transport sector and the automotive sector (5 percentage points and 3 percentage points below, respectively).

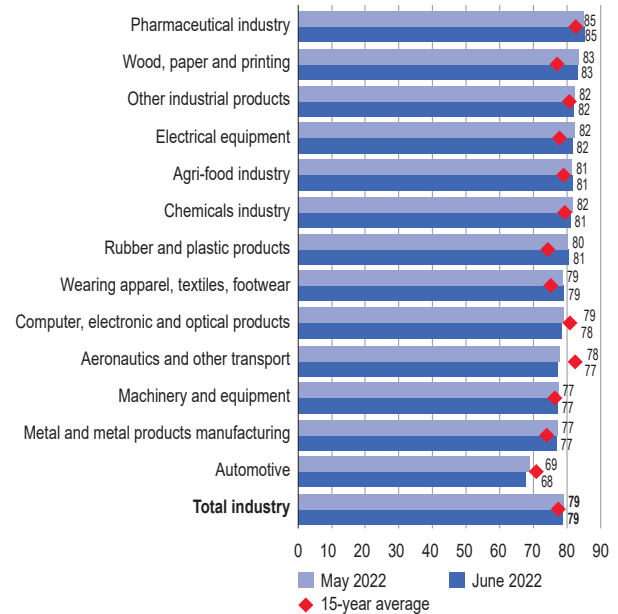
Capacity utilisation rate

(in%, adjusted for seasonal and working day variations)

a) In industry



b) By sub-sector



Activity continued to improve in **market services** in June but more gradually, as business leaders had forecasted in May. This improvement was particularly evident in certain business services (information services, publishing, and advertising and market research), but a sharp decline was recorded in legal and accounting services and in transportation and storage, which were hit by recruitment difficulties and rising fuel prices. The temporary work sector shrank back sharply due to a drop in demand from certain clients, notably in logistics and construction. The sector also experienced significant difficulties in recruiting temporary workers.

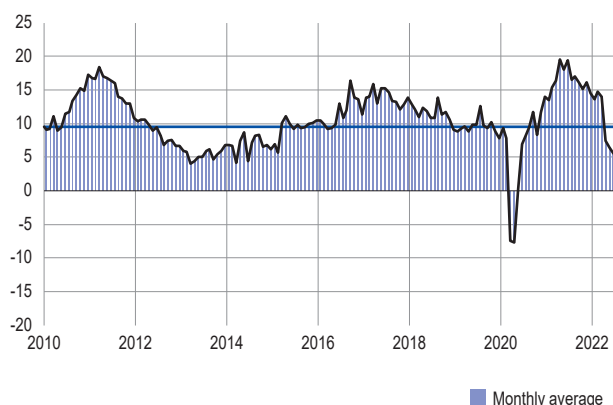
Although in May business leaders expected activity to slacken in the **construction** sector, it registered a slight improvement in June, both in structural and finishing works.

The **cash position** declined further in the industrial sector, and stabilised in market services. In both cases, it remained below its long-term average.

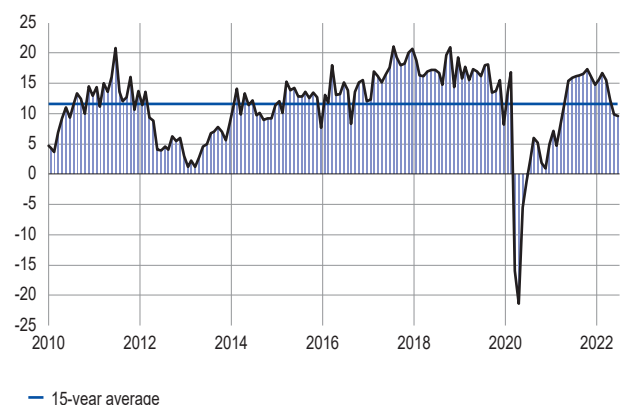
Cash position

(balance of opinion, adjusted for seasonal and working day variations)

a) In industry



b) In market services



2. In July, businesses expect activity to dip slightly in industry, grow at a moderate pace in services, and show little change in the construction sector

For July, the **business leaders** surveyed in the manufacturing industry generally expect their activity to dip slightly, mainly because of the deteriorating outlook in the chemicals and automotive sectors. Growth is expected in most of the other sectors, particularly in wearing apparel, textiles and footwear, pharmaceutical products and electrical equipment.

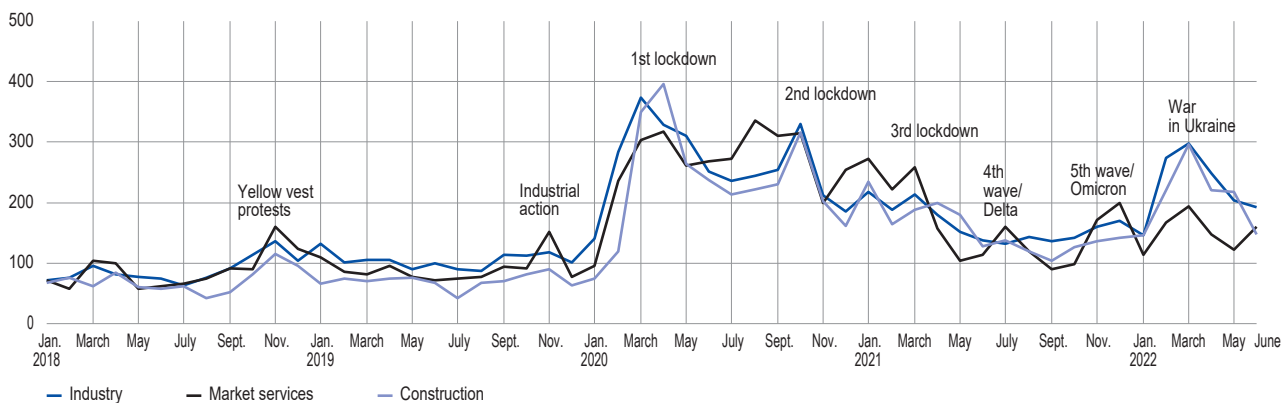
In **services**, business leaders expect continued growth in activity, though at a moderate pace, mainly driven by the business services and car rental sectors.

In **construction**, activity is expected to show little change in both the structural and finishing sectors.

Our monthly uncertainty indicator, which is constructed from a textual analysis of comments by the respondent companies, shows that uncertainty remained largely unchanged in June in industry but lessened considerably in construction. In both sectors, less mention was made of the short-term effects of the war in Ukraine than at the beginning of the conflict. However, many concerns remain with regard to the fourth quarter. In services, uncertainties have started to mount again, driven by the combined effect of a resurgent epidemic (seventh wave), worsening recruitment difficulties and concerns about how demand will be affected by the high inflation environment. Between the three major sectors, the indicator therefore converges towards a relatively high degree of uncertainty compared with its average level.

Indicator of uncertainty in the comments section of the Monthly Business Survey (MBS)

(unadjusted data)



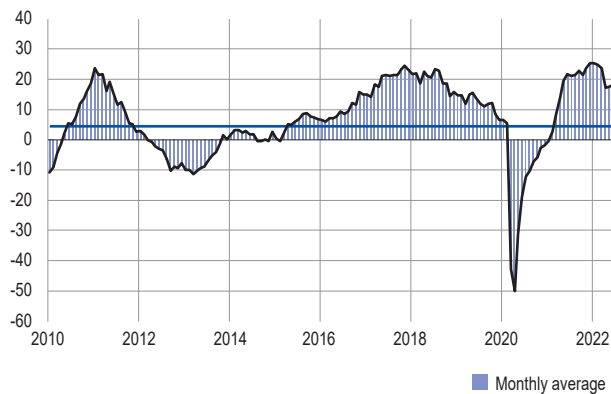
Note: The reference value is set at 100 and corresponds to the value around which the indicator fluctuates in normal periods.

The balance of opinion on **order books** was stable in June in industry, but fell again in the construction sector. Nevertheless, current levels in both cases remain well above their long-term average.

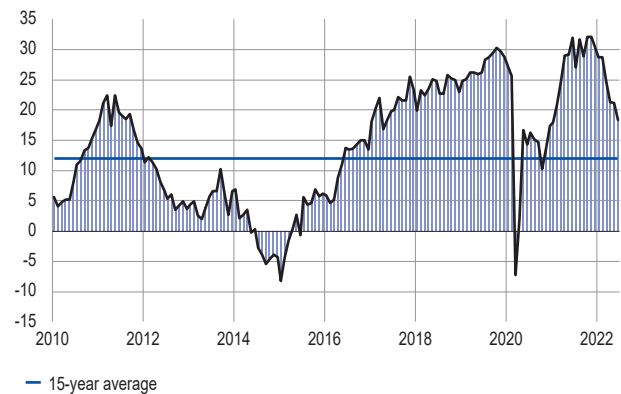
Level of order books

(balance of opinion, adjusted for seasonal and working-day variations)

a) In industry



b) In construction

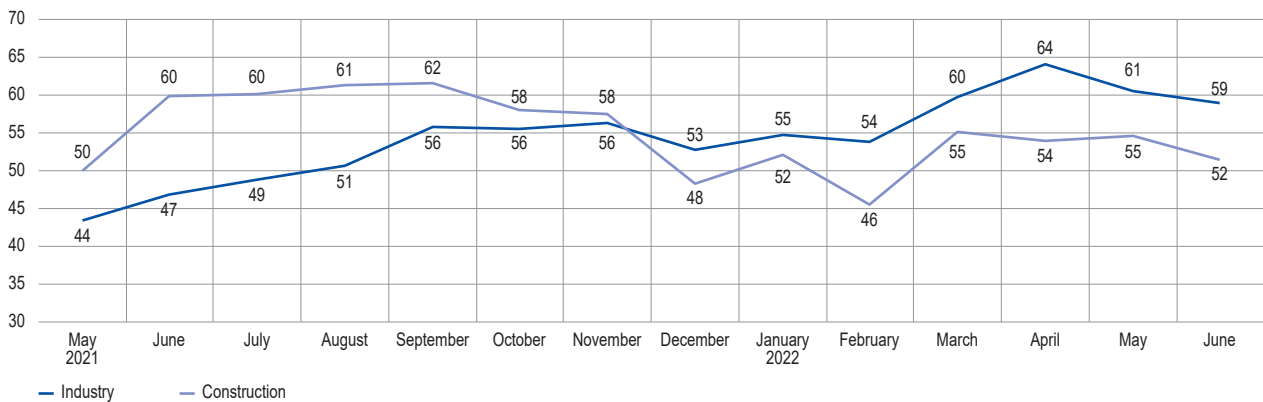


3. Supply and recruitment difficulties remain considerable but price increases were slightly lower for the second month in a row

Supply difficulties remained considerable in June but are easing slightly. The share of business leaders who said that supply difficulties were putting pressure on their activity declined in industry to 59% in June (after 61% in May). It fell even further in the construction sector (52% in June compared with 55% in May).

Share of businesses reporting supply difficulties

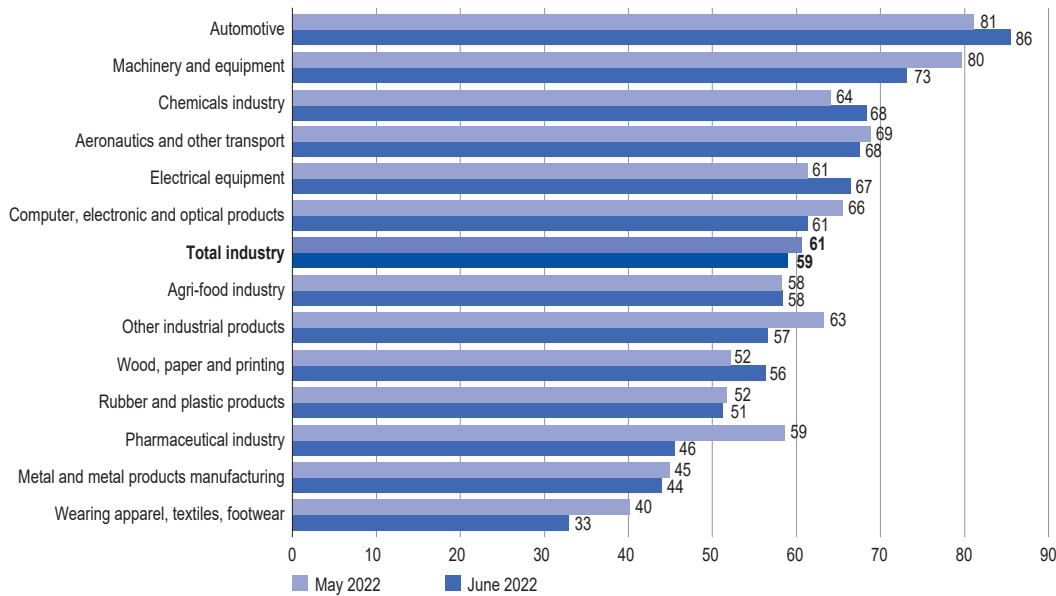
(in%, unadjusted data)



This overall trend disguises differences across sectors. For example, difficulties mounted in the electrical equipment, wood, paper and printing, automotive, and chemical sectors. Conversely, supply difficulties were deemed to have eased in the pharmaceutical industry, and in the manufacture of machinery and equipment and wearing apparel, textile and footwear.

Share of firms reporting supply difficulties – Industry, June 2022

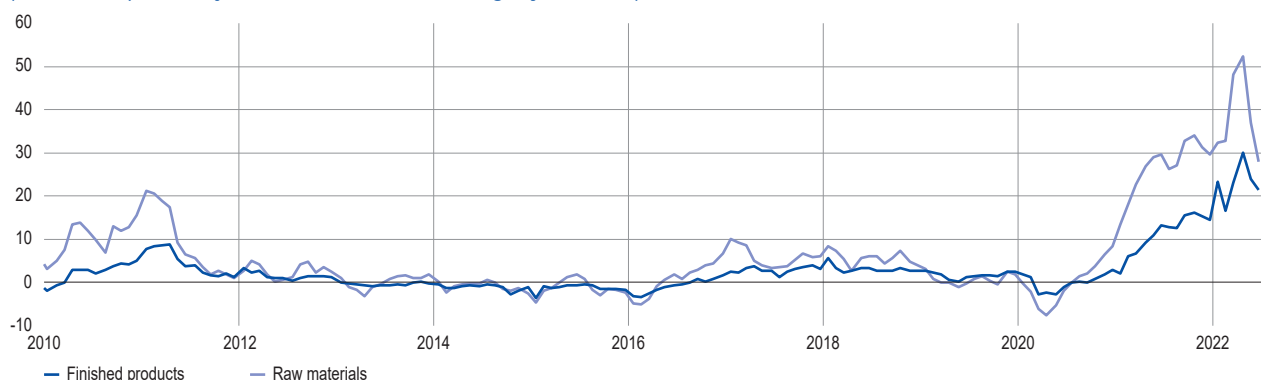
(%, unadjusted data)



According to business leaders, the easing of supply difficulties was accompanied by a further slowdown in the rise of raw material and, to a lesser extent, finished goods prices. Nonetheless, prices were still considered high.

Balance of opinion on price developments compared with the previous month – Manufacturing industry

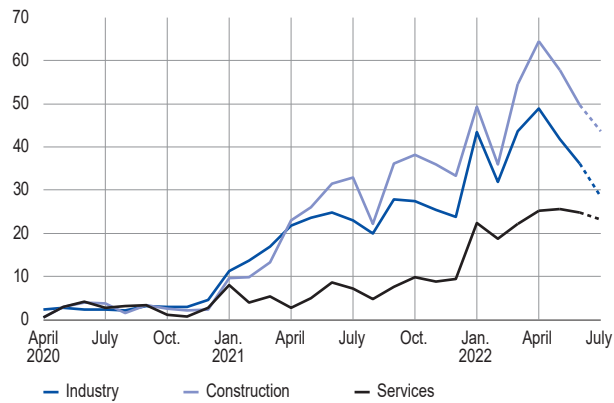
(balance of opinion, adjusted for seasonal and working day variations)



More specifically, 36% of business leaders in industry said that they put up their selling prices in June, in line with last month's expectations (35%). The share of business leaders reporting price increases is particularly high in the chemicals, rubber and plastics, and wood, paper and printing industries. For construction and market service companies, the share stands at 50% and 25%, respectively. The outlook for July points to a further decline in the share of businesses raising their prices in construction (44% of business leaders intend to increase their selling prices next month), services (23%) and especially industry (29%).

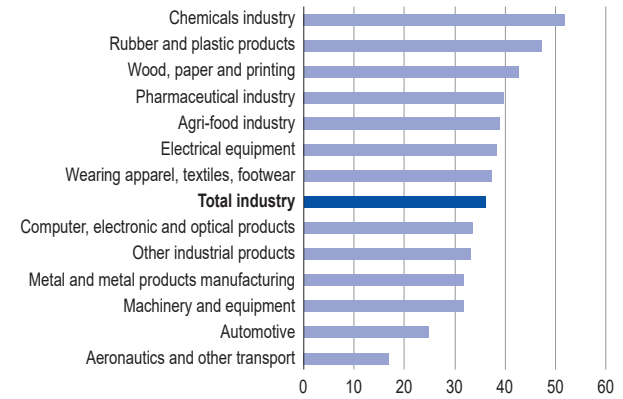
Share of business leaders that increased their selling prices, by major sector

(in%, unadjusted data; forecast for July)



Share of business leaders in industry that increased their selling prices in June, by sector

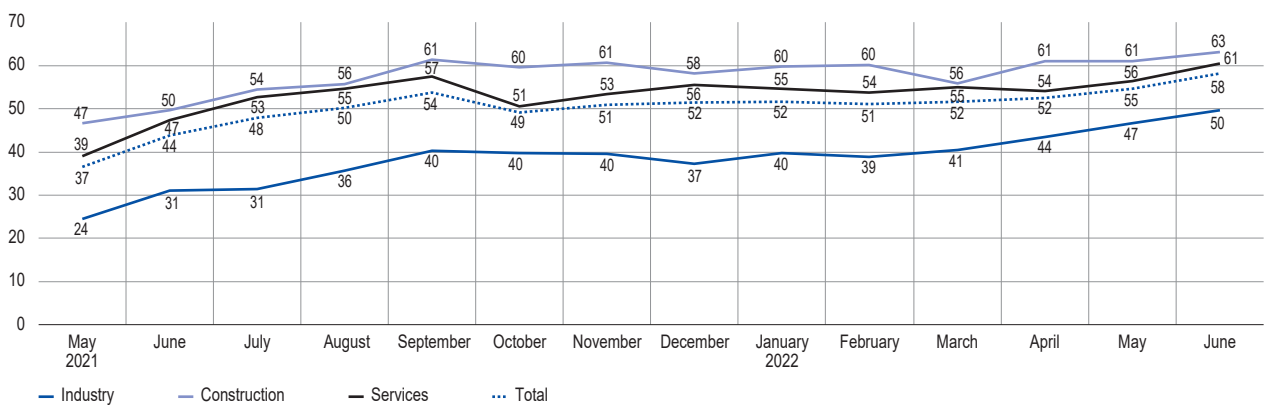
(in%, unadjusted data)



Business leaders were also asked about their **recruitment difficulties**. The share of businesses reporting recruitment difficulties rose again in June by 3 percentage points to 58%, the highest level since this question was included in our survey. The increase was more significant in services (up 5 percentage points) than in industry (up 3 percentage points) or construction (up 2 percentage points).

Share of businesses reporting recruitment difficulties

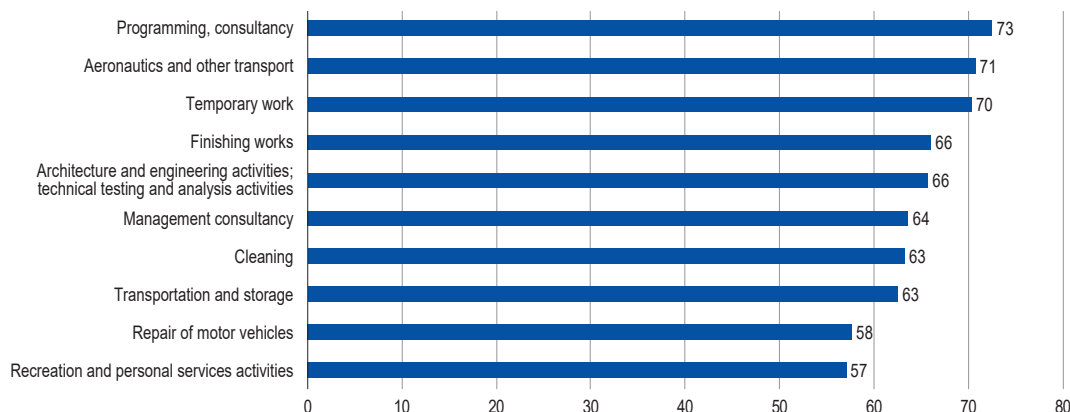
(in%, unadjusted data)



Eight of the ten sectors with the greatest recruitment difficulties in June 2022 operated in service activities. The most affected business services were programming, temporary work and technical services (architecture and engineering). In industry and construction, aeronautics and finishing works reported the greatest recruitment difficulties.

Share of businesses reporting recruitment difficulties – sectoral top 10, June 2022

(in%, unadjusted data)



4. Estimates primarily derived from the survey, and supplemented by other indicators, suggest that the stabilisation of GDP in June should be repeated in July

For the month of June, using granular survey data and other available data, we estimate that GDP should remain stable compared with May.

This is due to a slight increase in value added in construction and some service activities, offset by a slight decline in industry and in the trade, transportation and accommodation and food sectors. This estimate is also based on high-frequency data that we monitor in parallel for sectors not covered by the survey (notably construction, trade and transportation), and that we use to confirm our assessment of those industries and services that are covered. In particular, credit card data suggests that retail sector spending fell in June compared with May.

French GDP – monthly level

(percentage deviation from fourth quarter of 2021)

Activity sector	VA share	April	May	June
Agriculture and industry	15	-0.5	-0.4	-0.3
Agriculture and agri-food	4	-0.3	-0.1	0.0
Energy, water, waste, coking and refining	3	-4.7	-7.8	-7.5
Manufacturing industry excluding food coking and refining	9	0.7	1.8	1.7
Construction	6	-0.6	-0.2	-0.1
Market services	57	-0.1	0.4	0.3
Wholesale and retail trade, transportation, accommodation and food services	18	-1.8	-0.6	-1.0
Financial and real estate services	17	0.3	0.3	0.3
Other market services	22	0.7	1.2	1.3
Non-market services	22	0.1	0.1	0.1
Total	100	-0.2	0.2	0.2

Guide: Activity in June was 0.2% above the level recorded in the fourth quarter of 2021.

Business expectations reported in the survey for July suggest that GDP should remain stable compared with June.

In a still highly uncertain environment, hit by the effects of the war in Ukraine and the persistent deterioration in public health conditions, growth in GDP for the second quarter of 2022 is expected to be around ¼% compared with the previous quarter, mainly driven by the rebound in certain market services that were hard hit in early 2022 by the effects of the Omicron wave.